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C O N F I D E N T I A L SECTION 01 OF 02 ZAGREB 000407

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SUBJECT: CROATIA'S INA: OTHER SOURCES EXIST FOR LNG
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11. (C) Summary: Following up on reports of Austrian OMV's LNG deal with Iran, Econ Off spoke to Stevo Kolundzic, Senior Advisor to the Chairman of Croatia's national oil and gas company INA about the reports. Kolundzic said that there are many other potential sources of LNG for the Croatian project and that OMV's announcement of the Iran deal was most likely an offshoot of its flirtation with Iran over Nabucco. He cited Qatar as a source, saying that it would have additional capacity coming on line by 2012 (roughly the time the Croatian facility is projected to be up and running, if it is built), as well as potential sources in Egypt, Libya, Nigeria and Norway. He noted that INA currently has ongoing projects in Egypt, together with RWE, which is also part of the Croatian LNG project. Total, also a party in the deal, is active in Qatar as well. Kolundzic said that he believes the source of gas for the Croatian LNG project is less of a problem than the source of gas for Nabucco, which he fears could be dealt a death blow by Bluestream II, with Hungarian and Turkish complicity. End Summary.

12. (C) Econ Off spoke to Stevo Kolundzic, Senior Advisor to the Chairman of Croatia's INA on April 25 to follow up on reports of an OMV deal with Iran to source LNG for the planned terminal on the Croatian Adriatic island of Krk. Kolundzic, who has been with INA for thirty-five years, has extensive knowledge of the oil and gas business and an understanding of the geopolitical context. He said that there are many other sources of LNG that could be used for the Croatian LNG terminal and suspected that OMV's announcement of its Iran deal arose from its contacts with Iran over Nabucco. He noted that, as far as INA was concerned, Iran had not been considered as a source of gas for the project.

13. (C) When asked about claims that gas from Qatar would not be available for Croatia, Kolundzic said that, while it was true that Qatar did not have current surplus capacity, there is new capacity scheduled to come on line by 2012, which would dovetail with the projected start of regasification at the Croatian plant. He noted that project partner Total was active in Qatar, so it would be a logical supplier. He said Mediterranean supply would also be a logical source for the Krk facility, citing both Egypt and Libya. Both INA and project partner RWE are present in Egypt, where INA is currently exploiting oil concessions, but believes there is potential for gas as well. Other mentioned sources were Norway and even Nigeria, though in the longer term.

14. (C) Kolundzic said that he believes supply for Nabucco is the more difficult question, and the one where avoiding eventual Iranian supply might be more difficult in the long term, though he said that it was clear that a political change would have to occur in Iran for it to become a feasible source. He said that Putin was trying to drive a

stake in the heart of Nabucco with Bluestream II and said it would be difficult to secure an eventual 35 billion cubic meters (bcm) for Nabucco from Caspian sources alone, particularly if the project is not finalized soon. Kolundzic cited Turkey and Hungary as impediments to Nabucco, saying that they were playing into Russian hands. He said that in discussions with Turkish colleagues, he had come away with the impression that Turkey is less concerned about sources of gas than it is with making itself into an energy bridge, which is helping the Russians kill Nabucco. Hungary, he said, is a little more complicated, but two factors are tilting it towards the Russians: 1) EoN's asset swap with Gazprom and 2) its desire to develop a gas hub to compete with Austria.

15. (C) Kolundzic also wondered about the rumored prospects of an OMV-MOL merger (MOL holds a 25% stake in INA). He said that, given Russian interest in dominating Central and Eastern European energy markets, such mergers would probably be the only way to keep these companies from falling under Russian control, given that the Western majors are more interested in concessions and production elsewhere than in acquiring relatively minor companies.

16. (C) The Croatian LNG terminal is still not a done deal and a final investment decision by the partners (OMV, Total, RWE, INA and Geoplin) is not expected until late 2008. Croatian indecision and political maneuvering is also partially responsible for preventing this project from taking shape, as the GOC has sought to split INA's share with the national electric monopoly HEP and MOL has sought a share from INA. According to Kolundzic, most of these problems have been overcome and INA has agreed that MOL will get 1 bcm per year when the facility comes on line. In the meantime,

ZAGREB 00000407 002 OF 002

however, there is still uncertainty over the location and environmental opposition also lurks in the background. With elections in Croatia in 2007, it is unlikely that the GOC is going to be too forward-leaning on a project that could give opposition parties a lead in for attacks against it. Nevertheless, the GOC is still on record as supporting the project and has not indicated that this will change.
BRADTKE